



## Policy Insight

# Expanding Affordable Housing Options: The Implementation of Duty to Serve

By Michael Eggleston and Faith Weekly

### Key Takeaways

- Implementation of the Duty to Serve program (DTS) by Fannie Mae and Freddie Mac includes loan product development/loan purchase, investment, outreach and research.
- The DTS program, a component of the Housing and Economic Recovery Act of 2008, targets populations that include members of a Native American tribe and agricultural workers.
- Targeted geographic regions for DTS implementation include Middle Appalachia, the Lower Mississippi Delta, the colonias and persistent-poverty counties across the nation.

The Duty to Serve program (DTS) requires Fannie Mae and Freddie Mac to take measures in the secondary mortgage market that will lead to additional housing options for individuals and families with very low, low and moderate income. A previous [Policy Insight](#) provided an overview of the program—how it came to be, who the key players are, how the government-sponsored enterprises (GSEs) will be rated and more. This *Policy Insight* will focus on the specific actions Fannie Mae and Freddie Mac intend to take before December 2020 to fulfill their commitment to meet the needs of three markets: manufactured housing, rural housing and affordable housing preservation. The actions by the GSEs include loan product development and/or loan purchase, investment, outreach and research. DTS has the potential to substantially impact affordable housing in the U.S. through the secondary mortgage market. The objective of this *Policy Insight* is to highlight the program in a manner that is useful to affordable housing practitioners in an effort to maximize opportunities as they arise.

### **Manufactured Housing**

More than 17 million Americans live in manufactured homes. This housing market accounts for about 7 percent of the nation's housing stock.<sup>i</sup> Manufactured housing provides the largest source of unsubsidized affordable housing in the nation.<sup>ii</sup> Financing for these homes is complicated because many are held as personal property (sometimes referred to as "chattel") rather than real property, and are not eligible for financing with traditional mortgage products. In addition, mortgage lenders may be reluctant to finance manufactured homes because they are considered more risky. Therefore, loans on manufactured homes tend to have higher interest rates and fewer consumer protections, according to the U.S. Consumer Financial Protection Bureau.

The annual median household income of those living in manufactured homes is about \$30,000, according to the Manufactured Housing Institute. That’s about half of the 2016 national median income of \$59,039, according to U.S. Census data. Manufactured homes provide a critical source of affordable housing, especially in some of the lowest income regions of the country, accounting for more than 20 percent of homes in Middle Appalachia and 17 percent in the Lower Mississippi Delta.<sup>iii</sup>

**Table 1: A Summary of the GSEs’ Planned Activities for the Manufactured Housing Market**

	Loan Product Development and/or Loan Purchase	Investment	Outreach	Research
Manufactured Housing Titled as Real Property	✓		✓	
Manufactured Housing Titled as Personal Property	✓		✓	✓
Manufactured Housing Communities	✓	✓ Fannie Mae Only	✓	✓

***Support Manufactured Housing Titled as Real Property***

Both Fannie Mae and Freddie Mac plan to support titling manufactured housing as real property through a combination of loan product development and/or loan purchase and outreach. Classification of a home as real property enables homeowners the opportunity to have the same security and potential for wealth creation enjoyed by owners of site-built homes. For example, Freddie Mac will simplify the process by redesigning its current loan product offering, which will now require only one closing instead of two—one for construction and one for the permanent financing of manufactured housing titled as real property.

Freddie Mac will focus its outreach efforts on increasing access to homebuyer education, while Fannie Mae will participate in industry meetings to better understand the opportunities to expand liquidity in the market.

***Support Manufactured Housing Titled as Personal Property (Chattel)***

The GSEs will support this market through loan product development and/or loan purchase, outreach and research. Both GSEs will seek to better understand securitization structures for this market through outreach and research activities. For example, they will engage with rating agencies and existing lenders and both will research credit risk, pricing issues and legal requirements associated with the development of a chattel security.

Both GSEs will pilot chattel loan products. Fannie Mae plans to seek Federal Housing Finance Agency (FHFA) approval for its chattel loan pilot by the end of 2018, with launch of the pilot expected in 2019. Freddie Mac intends to develop guidelines for a chattel loan pilot and then initiate chattel purchases in 2019. The GSEs will also publish information about the performance of their chattel loan purchases and best practices learned through these chattel loan pilots.

**Support Manufactured Housing Multifamily Activities**

The GSEs plan to increase liquidity to governmental entities, nonprofit organizations or resident-owned communities (collectively “nontraditional owners”) through loan product development and/or loan purchase, outreach and research. Additionally, Fannie Mae intends to invest in nontraditional owners of manufactured housing. For example, Fannie Mae will design a pilot program for investments in nonprofit organizations, community development financial institutions (CDFIs), small financial institutions and other entities that focus on manufactured housing communities with nontraditional owners.

A challenge in the manufactured housing industry is clearly defining the rights of tenants who own a manufactured housing unit but lease the pad in a community where the housing unit is located. The development of uniform tenants’ rights is difficult because of inconsistent legal requirements for tenant pad leases. Further, there is no state law that meets all of the FHFA Pad Requirements. Therefore, the GSEs will seek to better understand tenant pad lease protections in their outreach and research efforts.

**Rural Housing**

Rural households are more likely to spend a large portion of their income on housing. Nearly 30 percent of all rural households, and 47 percent of rural renters, are housing cost-burdened, meaning more than 30 percent of their income goes to housing.<sup>iv</sup> Additionally, U.S. Department of Agriculture (USDA) rental properties provide more than 415,000 affordable homes to households in rural communities; however, no new USDA direct-finance rental housing has been developed since 2012<sup>v</sup>.

The GSEs plan to undertake activities to increase access to financing and expand distribution of capital to some of the most underserved rural regions and populations in the nation. The GSEs acknowledge that new and creative approaches will be required to fully meet their goals in these areas. By partnering with key entities—appraisers, lenders, nonprofits, CDFIs and housing finance agencies—who already work in these communities, the GSEs will gain a better understanding of the different housing markets that comprise rural regions.

**Table 2: A Summary of the GSEs’ Plans for Rural Housing**

	Loan Product Development and/or Loan Purchase	Investment	Outreach	Research
High-needs Rural Regions	✓	✓	✓	✓
High-needs Rural Populations	✓	✓	✓	✓

**Support High-needs Rural Regions**

Under the initial three-year DTS plan, Fannie Mae and Freddie Mac intend to support high-needs rural regions through loan product development and/or loan purchase, outreach and research. Both GSEs will focus on the Middle Appalachia, the Lower Mississippi Delta and the colonias along the U.S. border with

Mexico. Freddie Mac's activities in the colonias region will primarily be focused on the Texas border counties of El Paso, Cameron, Hidalgo, Starr, Webb and Maverick. Additionally, Freddie Mac will focus on persistent-poverty counties across the nation.

In addition to engaging in loan product development/loan purchase and outreach, the GSEs will make investments and conduct research. Each of the GSEs has authority to invest up to \$500 million in Low Income Housing Tax Credits (LIHTC) for rural housing. Freddie Mac and Fannie Mae intend to research the opportunity for investing in LIHTCs in the Lower Mississippi Delta, Middle Appalachia and persistent-poverty counties not included in other high-needs rural regions.

The GSEs will both conduct research into rural housing markets. For example, Freddie Mac will be developing a rural mapping tool to promote broader understanding of the rural market as defined by FHFA and to more easily identify properties that qualify under the definition.

### ***Support Housing for High-needs Rural Populations***

Both GSEs intend to support rural housing for high-needs populations through loan product development/loan purchase, investments, outreach and research. Both GSEs are targeting members of a federally recognized Indian tribe, while Fannie Mae will also target agricultural workers. Fannie Mae hopes to gain a better understanding of how to develop loan products that allow for flexibilities in agricultural workers' seasonal income and how to document residency when an employee holds an Individual Taxpayer Identification Number. Both populations face similar challenges that significantly impact their access to credit, including substantially higher poverty rates than the national average and limited access to financial services.<sup>vi</sup>

The GSEs intend to engage in investments to support housing for high-needs rural populations. Both GSEs will invest in LIHTC in tribal communities. Additionally, Fannie Mae will design an investment pilot program in 2018, partnering with a Native American CDFI or other mission-driven lenders to increase access to credit, capital or financial counseling.

In the product development/loan purchase area, Fannie Mae will redesign its Native American Conventional Lending Initiative while also purchasing loans secured by multifamily housing for Native Americans and agricultural workers.

### **Affordable Housing Preservation**

Housing has become increasingly unaffordable due to a variety of factors such as stagnant wages, increasing housing prices, conversion of previously affordable rental units to market rate and reduced investor demand for purchasing LIHTCs. As a result, over 39 million U.S. households now spend more than 30 percent of their income on housing, disproportionately affecting households with low income.<sup>vii</sup>

Both GSEs have comprehensive plans to address affordable housing preservation. Plans include supporting existing federal housing programs, various affordable housing initiatives and a reduction in energy and water consumption that leads to reduced utility expenses. As is the case with the other housing markets, efforts include a combination of developing loan products and/or purchasing loans, making investments and conducting outreach and research.

**Table 3: A Summary of the GSEs' Activities with Respect to Affordable Housing Preservation**

	Loan Product Development and/or Loan Purchase	Investment	Outreach	Research
Existing Federal Housing Programs	✓	✓		
Housing Initiatives	✓	✓ Fannie Mae Only	✓	✓
Residential Economic Diversity	✓		✓	✓
Energy Efficiency Programs	✓		✓	✓

***Support Existing Federal Housing Programs***

Unless otherwise noted, both GSEs intend to support the following programs through loan product development and/or loan purchase:

- U.S. Department of Housing and Urban Development's (HUD) Housing Choice Voucher Program (Section 8), which provides assistance to afford decent, safe and sanitary housing in the private market for families with low income, persons with disabilities and the elderly.
- USDA's Rural Rental Housing Program (Section 515), which provides mortgages for affordable rental housing targeted to families with low income, persons with disabilities, and the elderly.
- HUD's Housing for the Elderly Program (Section 202) (Fannie Mae only), which expands the supply of affordable housing with supportive services for the elderly.
- HUD's Rental Assistance Demonstration Program, which allows public housing agencies to leverage public and private debt with equity in order to reinvest in the public housing stock.

***Support Housing Initiatives***

In addition to supporting specific federal housing programs, the GSEs plan to support various housing initiatives—small multifamily rental properties, shared equity programs, workforce equity programs and properties in need of renovation. They intend to develop loan products and/or purchase loans and conduct outreach and research for small multifamily rental properties.

The GSEs plan to support shared equity programs through loan product development and/or loan purchase, conducting outreach and research. The purpose of shared equity programs is to preserve housing affordability for homeowners. An example of a shared equity program is a Community Land Trust (CLT) which acquires land and maintains ownership of it permanently. A household that owns property in a CLT earns a portion of the increased value when the property is sold; the remainder is kept by the trust, thus preserving affordability for future households.

The GSEs intend to support workforce equity programs through loan product development and/or loan purchase. Additionally, Fannie Mae will support these programs through investments. Workforce equity

programs refer to those that make investments in funds that acquire affordable multifamily properties to ensure the properties remain affordable. These funds can take the form of a real estate investment trust.

The GSEs will support the renovation of properties through loan product development and/or loan purchase and through outreach. They recognize that there are barriers in their current loan product offerings that prevent borrowers from utilizing these loans. In particular, many high-needs rural regions have aging housing stock that could be renovated to maintain or increase housing affordability for individuals living in those areas.

### ***Support Residential Economic Diversity***

Both GSEs plan to support residential economic diversity through loan product development and/or loan purchase, outreach and research.

Residential economic diversity refers to affordable housing in a high-opportunity area or mixed-income housing in an area of concentrated poverty. It's important to provide clear definitions for the following three terms:

- **High-opportunity area:** An area designated by HUD as a Difficult to Develop Area (DDA) with a poverty level threshold. FHFA will also allow the GSEs to use approved state and local definitions, which include those in state Qualified Allocation Plans.
- **Concentrated poverty:** A census tract where half of households have incomes below 60 percent of the area's median income or where the poverty rate of the census tract is 25 percent or higher. It can also include census tracts with a non-white population of 50 percent or higher and a poverty rate of 40 percent or higher.
- **Mixed-income housing:** A development with at least 20 percent of the housing units affordable to households with moderate-, middle- or upper-income levels.

### ***Support Energy and Water-efficiency Improvements***

Finally, the GSEs intend to support energy- and water-efficiency improvements to single-family properties through loan product development and/or loan purchase. The improvements are designed to reduce energy and water consumption as well as utility costs.

In addition to supporting energy- and water-efficiency improvements to single-family properties, the GSEs will conduct outreach and research on the impact of environmental improvements on multifamily properties.

### **Conclusion**

At a time when the nation is facing a shortage of affordable housing, the GSEs have been working to implement the DTS program, which has the potential to increase the supply of affordable housing and expand rental and homeownership options to people with very low, low and moderate income. To be effective, the DTS program will require the GSEs to not only design loan products and/or purchase loans, make investments and conduct outreach and research, but to also develop relationships with entities that already know the rural housing markets (i.e., housing providers, nonprofits, intermediaries, CDFIs and

tribal organizations) to gain a better understanding of the nuances necessary to serve these different communities. Affordable housing practitioners can maximize the potential of the DTS program to expand housing options for people with very low, low and moderate income by understanding the actions of the GSEs.

While this *Policy Insight* summarizes the strategies of the GSEs, each entity has a comprehensive plan with more detail on their actions. To learn more, read [Fannie Mae's DTS plan](#) and [Freddie Mac's DTS plan](#). Alternatively, the Federal Housing Finance Agency has prepared eleven topical [snapshots](#) of the GSEs' plans.

*Michael Eggleston and Faith Weekly are community development advisors at the Federal Reserve Bank of St. Louis, focusing on community development finance and neighborhoods and housing, respectively.*

---

*Policy Insight* is a product of the St. Louis Fed's Community Development department, sharing analysis and ideas about the issues and opportunities that impact the economic resilience and mobility of low- and moderate-income and underserved communities.

---

<sup>i</sup> I'M HOME Public Comments Letter

<sup>ii</sup> I'M HOME Public Comments Letter

<sup>iii</sup> Realtor.com, Can Fannie and Freddie Provide a Jolt to Buyers Desperate for Affordable Housing

<sup>iv</sup> The State of the Nation's Housing 2016, Joint Center for Housing Studies at Harvard University (June 2016)

<sup>v</sup> Rural America is Losing Its Affordable Rental Housing, Housing Assistance Council (September 2018)

<sup>vi</sup> Freddie Mac Underserved Markets Plan

<sup>vii</sup> Low-Income Homeowners Are As Burdened by Housing Costs as Renters, Urban Institute (January 2017)



FEDERAL RESERVE BANK *of* ST. LOUIS

CENTRAL TO AMERICA'S ECONOMY\*